



Memorandum

TO: Larry Lisenbee,
Budget Director

FROM: Gerald A. Silva,
City Auditor

SUBJECT: *UPDATED CELLULAR PHONE
OPTIONS*

DATE: June 29, 2004

Recommendation

We recommend that the Administration consider the information in this memorandum regarding cellular phone vendors.

Background

On April 15, 2004, the Auditor's Office sent you a memorandum which stated that the City could save a significant amount of money each year by switching to a Pooled Minutes Plan for cell phones. The City currently pays for about 1600 active cell phones on individual plans from AT&T and Nextel. AT&T and Nextel cell phone usage from March 2003 to February 2004 cost about \$730,000 and \$200,000, respectively, or \$930,000. The 2004-05 Proposed Operating Budget includes \$254,372 for AT&T cell phone rate plan adjustments and discounts. We believe the City can save an additional \$250,000 per year by pooling cell phone minutes with one vendor.

Unlike individual cell phone rate plans, a pooled minutes plan combines cell phone capacity into a large bucket for Citywide use. For example, a pooled plan for 10 cell phones with 250 monthly minutes each would allow all individual users to draw from a pool of 2,500 monthly minutes. A pooled minutes plan reduces the risk of paying for overage charges by spreading unused minutes from low users to high users.

Analysis Of Options Available Through Various Carriers

The City's combined AT&T and Nextel annual cell phone usage is about 5,200,000 minutes per year. We contacted several different cellular phone service providers and asked them to give us their best proposal for accommodating our existing cellular phone usage. Due to changes in rates, we updated our April 15, 2004 memorandum. Our latest survey results are summarized in the chart below.

Summary Of Cell Phone Service Providers' Proposals To Accommodate The City's Annual Usage

Cell Phone Service Provider Proposal	Number Of Phones	Number Of Annual Minutes	Annual Cost	Projected Annual Savings	Phones	Features	Carrier Benefits
Cingular (Pooled Minutes Plan)	1600	5,100,000 minutes	\$360,000	\$570,000	Taxes only	Includes LD, roaming in CA/NV/WA/ID, no nights and weekends, no mobile to mobile	GSA: non contract - no early termination fees; no activation charges; complete training for liaisons; CD-ROM or on-line available; quarterly reviews; reduced rate for replacement phones
Nextel (Pooled Minutes Plan)	1600	5,100,000 minutes	\$460,000	\$470,000	Taxes only	Includes LD and national roaming; 4,800,000 radio minutes, unlimited nights and weekends	WSCA: non contract - no early termination fees; no activation charges; no shipping or handling charges; complete training for liaisons; quarterly reviews; reduced rate for replacement phones; CD-ROM available
AT&T (Pooled Minutes Plan)	1600	6,720,000 minutes	\$650,000	\$280,000	Taxes only	Includes LD from home area, 250 mobile to mobile, and 125 nights and weekend per phone	WSCA: non contract - no early termination fees; no activation charges; complete training for liaisons; CD-ROM available; quarterly reviews; no shipping or handling charges; reduced rates on replacement phones
Verizon (Pooled Minutes Plan)	1600	7,680,000 minutes	\$700,000	\$230,000	Taxes only	Includes LD and unlimited nights and weekends, roaming in northern and central CA	GSA: non contract - no early termination fees; On-line account information available; retail pricing for phone replacements
AT&T And Nextel (Rate Plans)	1385 AT&T, 215 Nextel	5,200,000 combined minutes	\$930,000		Existing phones	Varies by plan	WSCA: non contract - no early termination fees; no activation charges; complete training for liaisons; CD-ROM available; quarterly reviews; no shipping or handling charges; reduced rates on replacement phones

Source: Data provided by vendors¹.

As shown above, we identified four cellular phone service provider proposals that we project would annually save the City from \$230,000 to \$570,000 per year. We project that the Cingular Wireless Pooled Minutes Plan proposal would save the City the most at \$570,000 a year. However, Cingular is not part of the Western States Contracting Alliance WSCA Agreement and we identified some Cingular cell phone service issues which we discuss below.

City Authority To Change Plans And Vendors

On May 27, 2003, the City Council adopted a resolution authorizing the Director of General Services to execute an agreement under the WSCA Agreement for the purchase of wireless service and equipment from AT&T Wireless, Verizon, Nextel, and/or Sprint in a cumulative amount not to exceed \$1,100,000 for 2003-04.

The resolution allows the City to change vendors within the WSCA agreement with the authority granted under the May 27, 2003 City Council resolution. The Administration can make changes among the WSCA vendors by simply making a phone call. Based on the updated proposals Nextel is the most economical WSCA vendor, with a projected annual savings of \$470,000.

¹ The rates quoted do not include taxes and fees and startup costs of about \$15,000 to \$35,000 for taxes on the initial rollout of new cellular phones. Vendor plan changes may affect future plan costs.

Assessment

We conducted tests of Cingular, Nextel, AT&T, and Verizon cellular phones to assess the service coverage in select areas of the City. In our opinion, Verizon, Nextel, and AT&T provided adequate service coverage within the City limits, while Cingular service had the most problems in several City areas.

More specifically, Verizon and AT&T provided stronger coverage with fewer lost signals than other vendors in the Evergreen area, but Nextel is the only vendor that provides service coverage for the entire Almaden Valley area. There are some unknowns with Cingular and AT&T regarding service coverage. According to the vendors, Cingular has acquired AT&T and is in the process of finalizing the merger. Cingular currently allows AT&T to use the Cingular network, yet Cingular does not use the AT&T network. Our assessment of AT&T included the use of both networks. It is not clear what impact the merger will have on each vendor and their service coverage.

We interviewed selected City departments to identify their concerns regarding cellular phone coverage, reliability, and vendor support. We used this information when working with the vendors and testing cellular phones. For example, the Police Department stated that flip Nextel phones were not durable so we tested two newer-generation Nextel phones – one flip and one non-flip - for durability.

We recommend that the Administration consider the information in this memorandum regarding cellular phone vendors.

The Cellular Phone Program Audit

We are reviewing the City's Cellular Phone Program as part of the ITD Audit in the City Auditor's Approved 2003-04 Workplan. In addition to this memorandum, we will continue to work on improving the City's Cellular Phone Program by addressing potential abusive cell phone usage and employee reimbursement issues. Please let us know if you have any questions or need any further assistance.

Gerald A. Silva
City Auditor